

Message Text

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INFO OCT-01 ISO-00 SPC-03 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 PA-04 PRS-01 USIA-15 FEA-02 INT-08

AGR-20 DRC-01 IGA-02 DODE-00 /185 W

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R 161109Z JAN 74 ZDK

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 2896

INFO AMEMBASSY DACCA

AMEMBASSY KABUL

AMCONSUL KARACHI

AMCONSUL LAHORE

AMEMBASSY NEW DELHI

AMCONSUL PESHAWAR

AMEMBASSY TEHRAN

C O N F I D E N T I A L SECTION 1 OF 3 ISLAMABAD 0550

E.O. 11652: GDS

TAGS: EIND, PK

SUBJ: BHUTTO GOVERNMENT'S NATIONALIZATION POLICIES

SUMMARY. THE RECENT RESURGENCE OF NATIONALIZATION MEASURES BY BHUTTO GOVERNMENT HAS FURTHER DEPRESSED ALREADY STAGNATING INVESTOR SECTOR, AND WIDENED CREDIBILITY GAP OF GOP WITH BUSINESSMEN. ECONOMIC LEADERSHIP OF GOP CONTINUES TO BE STRONGLY LEFTIST-ORIENTED. WHILE BHUTTO MAY BE MORE PRAGMATIC THAN DOCTRINAIRE, HE HAS THROUGHOUT HIS REGIME KEPT IN POWER FINANCE MINISTER MUBASHIR HASAN, WHO HAS DEEP IDEOLOGICAL CONVICTIONS OF THE KIND ENUNCIATED IN PPP 1970 MANIFESTO. NATIONALIZATION MEASURES HAVE GENERALLY NOT BEEN APPLIED TO FOREIGN FIRMS; DESPITE THIS THERE IS LITTLE INFLOW OF PRIVATE CAPITAL FROM

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ABROAD. FOR FORESEEABLE FUTURE, PAKISTAN'S INDUSTRIAL

DEVELOPMENT WILL HAVE TO RELY LARGELY ON PUBLIC SECTOR INVESTMENTS, WHICH IN TURN WILL DEPEND HEAVILY ON ASSISTANCE FROM FOREIGN COUNTRIES. ON POLITICAL SIDE, BHUTTO'S NATIONALIZATION MEASURES HAVE HELPED TO REASSURE HIS PPP LEFT WINGERS AND HAVE WON SUPPORT AMONG THOSE IN MASSES WHO SEE MEASURES AS FORM OF REDISTRIBUTION OF WEALTH. BUT HE HAS FURTHER ALIENATED BUSINESS ADP000
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4. DOCTRINAIRE VIEWS OF FINANCE MINISTER MUBASHIR HASAN.
BHUTTO, ON COMING TO POWER, APPOINTED AS FINANCE MINISTER AN ENGINEER WITH NO BACKGROUND IN ECONOMICS AND FINANCE, MUBASHIR HASAN, A PPP LEADER WITH DISTINCTLY LEFTIST IDEOLOGICAL CONVICTIONS. PRIOR TO AND SINCE TAKING OFFICE, MUBASHIR HASAN HAS MADE QUITE UNEQUIVOCAL STATEMENTS AS TO HOW HE SEES ECONOMIC PICTURE THROUGH MARXIST EYES. DURING THE CONSTITUTIONAL DEBATES EARLY IN 1973, E.G., HE SPOKE OF THE CLASS STRUGGLE, AND CATEGORICALLY STATED THAT PPP OBJECTIVES COULD NOT BE ATTAINED IN CAPITALIST SYSTEM BASED ON THE RIGHT TO HAVE PRIVATE PROPERTY. HE WENT FURTHER, INDICATING THAT HE WOULD WELCOME AMENDMENTS TO THE CONSTITUTION PROVIDING FOR "COMPLETE ABOLITION OF CAPITALISM, FEUDALISM, AND OWNING OF FACTORIES AND STOCK AND SHARES." IT WILL ALSO BE RECALLED THAT THE PPP 1970 MANIFESTO, WHICH MUBASHIR
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HASAN HELPED TO SHAPE, CALLED FOR NATIONALIZATION OF "ALL MAJOR INDUSTRIES."

5. BHUTTO'S GENERAL OUTLOOK PRAGMATIC AND TO THE LEFT. WE REGARD BHUTTO AS MORE PRAGMATIC AND LESS DOCTRINAIRE THAN HIS FINANCE MINISTER. AT THE MOMENT, HOWEVER, THIS DIFFERENCE DOES NOT APPEAR TO BE TOO MEANINGFUL. IT SEEMS PARTICULARLY SIGNIFICANT THAT DESPITE PERSISTENT RUMORS THAT BHUTTO WOULD REPLACE MUBASHIR HASAN WITH A MORE MODERATE FINANCE MINISTER, NO SUCH ACTION HAS TAKEN PLACE FOR MORE THAN TWO YEARS. OFTEN, THE TWO ECHO EACH OTHER'S SENTIMENTS. THUS, BHUTTO, TOO, WAVES AWAY THE PROBLEM OF UNCERTAINTY IN THE PRIVATE SECTOR: "... I HAVE TOLD YOU REPEATEDLY THAT THERE IS NO ROOM FOR THIS UNCERTAINTY. THERE SHOULD BE NO UNCERTAINTY. BUT IF YOU KEEP ON SAYING THAT THERE IS UNCERTAINTY, THERE IS NO ANSWER THAT I CAN GIVE YOU...." AGAIN: "...WHAT CAN I DO IF A HANDFUL OF YOU ARE UNABLE TO ADJUST YOURSELVES TO THE CHANGING TIMES AND ARE UNABLE TO TAKE A HISTORICAL LESSON FROM THE HISTORICAL MOVEMENTS OF ASIA? IF YOUR EARS CANNOT UNDERSTAND THE MUSIC AND THE TEMPO OF THE TIMES OF ASIA, IT IS NOT MY FAULT...." (EXCERPTED FROM ADDRESS BEFORE EXPORT PROMOTION COUNCIL, NOV. 1, 1973.) BHUTTO'S INSISTENCE ON REFORM CAN BE RATIONALIZED TO A DEGREE: THERE ARE GROSS INEQUITIES IN PAKISTAN'S SOCIO-ECONOMIC STRUCTURE, WHICH HAVE BEEN A SOURCE OF POLITICAL INSTABILITY IN THE PAST. ANY GOVERNMENT WISHING TO RETAIN MASS SUPPORT WOULD NEED AT MINIMUM TO CREATE THE IMPRESSION OF DEDICATION TO REFORM, IN THIS CASE THE CURE COULD PROVE TO BE WORSE THAN THE DISEASE, BUT AT LEAST THE REGIME IS RE-ACTING, WHETHER OR NOT LOGICALLY, TO WHAT IT CORRECTLY PERCEIVES AS A REAL NEED FOR REFORM.

6. NATIONALIZATION AND FOREIGN PRIVATE INVESTMENTS. WITH ONE EXCEPTION, THE GOP HAS NOT EXTENDED ITS NATIONALIZATION POLICY TO FOREIGN FIRMS. THE EXCEPTION WAS THE NATIONALIZATION IN 1972 OF FOREIGN-OWNED LIFE INSURANCE COMPANIES, INCLUDING THE AMERICAN FIRM ALICO. PROVISIONS WERE MADE FOR COMPENSATION, BUT THESE HAVE NOT BEEN IMPLEMENTED FOR THE THREE BRITISH AND THE SEVERAL PAK FIRMS INVOLVED, AND WERE IMPLEMENTED FOR ALICO ONLY AFTER MORE THAN 1 1/2 YEARS

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OF STRENUOUS NEGOTIATIONS. DESPITE THIS RECORD, THE CLIMATE FOR INVESTMENT HAS BY NO MEANS PROVED CONDUCIVE TO NEW CAPITAL INFLOWS FROM ABROAD.

FOR ONE REASON, POTENTIAL INVESTORS ARE MINDFUL OF REGIONAL AND DOMESTIC POLITICAL UNCERTAINTIES IN THIS AREA. FOR ANOTHER, THEY DRAW LITTLE COMFORT FROM THE EXPERIENCE OF EXISTING INVESTORS, ALMOST ALL OF WHOM HAVE SUFFERED FROM GOP PRICING AND TAXING POLICIES, ETC. SOME OF THESE ARE NOW DOING BETTER (E.G., FERTILIZER FIRMS), BUT OTHERS ARE DISCOURAGED OVER THE PROSPECTS THEY FACE E.G., OIL MARKETING COMPANIES). FINALLY, POTENTIAL FOREIGN INVESTORS ARE UNDERSTANDABLY UNEASY IN AN ENVIRONMENT IN WHICH DOMESTIC FIRMS ARE BEING INCREASINGLY NATIONALIZED, QUESTIONING HOW LONG EXEMPTIONS FOR FOREIGN FIRMS ARE LIKELY TO LAST.

7. OUTLOOK FOR FURTHER NATIONALIZATION. DOUBTLESS MORE NATIONALIZATION CAN BE EXPECTED DURING THIS AND THE COMING YEAR, POSSIBLY AFTER A PAUSE TO PERMIT ASSIMILATION OF THE RECENT MEASURES. POPULAR MEASURES SUCH AS NATIONALIZATION MAY BE VIEWED BY GOP LEADERS AS WAYS OF OFFSETTING GROWING MASS DISCONTENT SPARKED BY BURGEONING INFLATION. A KEY QUESTION WILL BE THE EXTENT TO WHICH INDUSTRIAL TAKE-OVERS WILL BE CO

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8. IMPLICATIONS OF NATIONALIZATION POLICY FOR PAKISTAN.

WITH THE PRIVATE SECTOR DEPRESSED AND CONSTRICTED, PAKISTAN'S INDUSTRIAL DEVELOPMENT WILL FOR THE FORESEEABLE FUTURE HAVE TO DEPEND VERY LARGELY ON PUBLIC SECTOR INVESTMENTS. IN TURN, THESE WILL HINGE IMPORTANTLY ON CONTINUED GENEROUS ASSISTANCE FROM ABROAD, BECAUSE OF INADEQUATE FOREIGN EXCHANGE, NOW ACCENTUATED BY THE ADDITIONAL OUTLAYS NECESSITATED BY WORLD OIL SUPPLY AND PRICE SITUATION. THE NEED FOR MORE FOREIGN ASSISTANCE COMES AT A TIME WHEN TRADITIONAL DONOR NATIONS ARE FINDING IT INCREASINGLY DIFFICULT TO RESPOND. ECONOMIC GROWTH CAN BE EXPECTED TO BE SLOWER THAN WOULD BE THE CASE IF THERE WERE INSTEAD TO BE A POLICY PROMOTING ACTIVATION OF THE ENTREPRENEUR SECTOR. A CONTINUING TENDENCY FOR FLIGHT OF CAPITAL OVER PAST YEARS, TOO, IS ALTOGETHER LIKELY TO BE ACCENTUATED BY THE STEPPED-UP NATIONALIZATION TREND. BUSINESSMEN HAVE INVESTED FUNDS

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IN GOLD AND COMMODITIES, AGGRAVATING INFLATION, AND HAVE FAVORED TRADING RATHER THAN PRODUCTION. ON THE POLITICAL SIDE, BHUTTO'S REGIME HAS FURTHER ALIENATED THE LARGE BUSINESS ESTABLISHMENTS IN THE RELATIVELY SMALL COMMERCIAL AND INDUSTRIAL SECTOR. HOWEVER, FOR THE TIME BEING AT LEAST HE MAY PERHAPS BRUSH THIS ASIDE AS RELATIVELY INCONSEQUENTIAL. HIS MEASURES ARE POPULAR IN THAT THESE APPEAR TO REPRESENT A REDISTRIBUTION OF WEALTH. THESE HAVE HELPED SOLIDIFY HIS PPP, REASSURING LEFT WINGERS WHO HAD SHOWN SOME DISILLUSIONMENT OVER THE EARLIER RELATIVELY RESTRAINED PACE OF SOCIALIZATION REFORMS, AND COUNTERACTING SOMEWHAT THE GROWING UNREST SPARKED BY THE SHARPLY RISING COST OF LIVING. NEGATIVE CONSEQUENCES OF NATIONALIZATION ON ECONOMIC GROWTH ARE OBSCURED AT A TIME WHEN PAKISTAN IS RIDING THE CREST OF A BOOM IN ITS PRINCIPAL EXPORTS, COTTON ITEMS AND RICE, AND WHEN SUCH GENEROUS FOREIGN ECONOMIC ASSISTANCE IS BEING EXTENDED. BUT IN THE LONGER RUN THE OUTLOOK IS MORE UNCERTAIN. A WINDING DOWN OF THE WORLD BOOM IN COTTONS, AND/OR A POOR CROP YEAR, E.G., WOULD BRING INTO SHARPER RELIEF THE CONSTRICTING EFFECTS OF INVESTOR STAGNATION. MORE IMPORTANTLY, AND PERHAPS MORE PREDICTABLY, AN ALREADY SERIOUS AND WORSENING INFLATIONARY ENVIRONMENT FANNED ANEW BY THE WORLD OIL CRISIS, COULD REACH THE POINT OF BROAD MASS DISCONTENT AND BREAKDOWNS IN LAW AND ORDER. IN THAT KIND OF SITUATION, RESENTMENTS IN PARTICULAR SECTORS, SUCH AS BUSINESS AND INDUSTRY, COULD PROVE TO BE SIGNIFICANT ALTHOUGH MARGINAL FACTORS IN THREATENING SURVIVAL OF THE REGIME. BUT, MEANTIME, THE REGIME CAN BASK IN THE EUPHORIA OF ITS CONSIDERABLE POPULARITY AND STRENGTHENED POSITION VIS-A-VIS LEFT WING ELEMENTS AND BROAD SECTIONS OF THE MASSES.

9. IMPLICATIONS FOR THE UNITED STATES. THERE IS LITTLE

GAINSAYING THAT THE US WOULD FIND IT MORE COMFORTABLE TO
WORK WITH A PAKISTAN WHICH RELIED MORE ON THE PRIVATE ENTER-
PRISE SYSTEM. NOW, HOWEVER, PAKISTAN FALLS ALL THE MORE
CLEARLY INTO THAT SIZEABLE GROUP OF NATIONS WITH WHICH WE
HAVE FRIENDLY AND GENERALLY COOPERATIVE RELATIONS DESPITE
THEIR OWN INCREASING PARTIALITY FOR SOCIALIST FORMS AND
PRACTICES. THE CURRENT DEVELOPING SITUATION WITH REGARD
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TO THE GOP'S REFORMS AND NATIONALIZATION DOES NOT
NECESSARILY CALL FOR ANY SPECIFIC NEGATIVE RESPONSE ON OUR
PART. WE RECOGNIZE OTHER COUNTRIES' RIGHT TO CHOOSE
THEIR OWN POLITICO-ECONOMIC SYSTEMS. THEY

HAVE A SOVEREIGN RIGHT TO NATIONALIZE BUSINESS FIRMS, IN-
CLUDING AMERICAN ONES, IN WHICH INSTANCES OUR CONCERNS ARE
CONFINED TO REMPHASIZING THAT THERE MUST BE COMPENSATION,
WHICH IN TURN SHOULD BE REASONABLY PROMPT AND ADEQUATE.
OTHER THAN THIS, WE CAN AT MOST USE OUR INFLUENCE AS APPRO-
PRIATE TO SUGGEST PITFALLS, CITE EXAMPLES OF PRIVATE ENTER-
PRISE SUCCESSES, ETC. BUT BHUTTO'S REGIME IS PRETTY DEFI-
NITELY COMMITTED, AND WE WOULD HAVE GCO MOVE WITH GREATHARE
EVEN IF WE WERE TO DECIDE TO DRAW UPON WHAT CAPACITY WE HAVE
TO TRY TO INFLUENCE DELINEATION OF POLICY BY THE GOP.

10. NOTE: AMCONGENS KARACHI AND LAHORE HAVE RECEIVED
DRAFT OF THIS TELEGRAM, AND HAVE CONTRIBUTED A NUMBER OF
SUGGESTIONS.
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